

# Researching Customer Satisfaction And Loyalty To Boost Marketing Effectiveness: A Look At Japan's Auto Dealerships

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## ABSTRACT

*Faced with a sluggish economy, car sales have been disappointing in recent years. Given this situation, it is critical that dealerships shift the focus of their sales and marketing activities from attracting new customers to keeping the customers they already have. This move can be expected not only to reduce sales costs, but also contribute to healthy profits.*

**Keywords:** Customer Satisfaction; Customer Loyalty; Marketing

## INTRODUCTION

Relationships between auto dealerships and their customers typically change and develop over time. Analyzing this phenomenon through a customer lifecycle framework allows us to assess the financial rewards a company receives over the course of these developments; in other words, figure out how much profit is generated over time.

When sales and new customer acquisition rates begin to fall, dealers start shifting their attention to how they can keep their existing core customers (customer retention) and how they can get these customers to purchase additional related or different products. The auto industry is already mired in this situation and must find ways to deal with it.

Customer loyalty is a concept that will become increasingly critical in the future. It requires that dealerships work to boost satisfaction among their core customers by continuing to offer the products and services that these loyal customers want to take advantage of and purchase.

This study looks to statistics as it focuses on customer satisfaction as a way of boosting marketing effectiveness, clarifying the key factors that comprise customer loyalty.

## PRIOR RESEARCH

Many studies have already been done across a variety of industries dealing with the analysis methods and processes that can be used to clarify the components involved in customer satisfaction and customer loyalty. Several of these studies, particularly one by Kawasaki and Yoshizawa (2001), overemphasize customer satisfaction in using customer data marketing to increase satisfaction levels. At the same time, though structural analysis tools have been applied to customer loyalty in some studies, the authors know of no studies that have been done on auto sales from a multidisciplinary perspective.

## Situation and Problem of Japan's Auto Sales

Figure 1 shows five customer lifecycle stages as they apply to auto sales (dealerships). Generally speaking, the Japanese auto industry has now maximized new vehicle sales - meaning that the market has fully matured when it

comes to traditional auto sales methods. Faced with a sluggish economy, car sales have been disappointing in recent years. Given this situation, it is critical that dealerships shift the focus of their sales and marketing activities from attracting new customers to keeping the customers they already have. This move can be expected not only to reduce sales costs, but also contribute to healthy profits.

A dealership's best (core) customers took on that designation through a process of satisfactory purchases with that company. They are familiar with the features of their dealership's products and services, know how purchases are made, and know the best way to take advantage of how the dealership runs. For this reason, marketing activities that target these core customers will help create a customer base that is superior to that of competitors working in the same industry. Core customers are an auto dealer's most priceless asset.

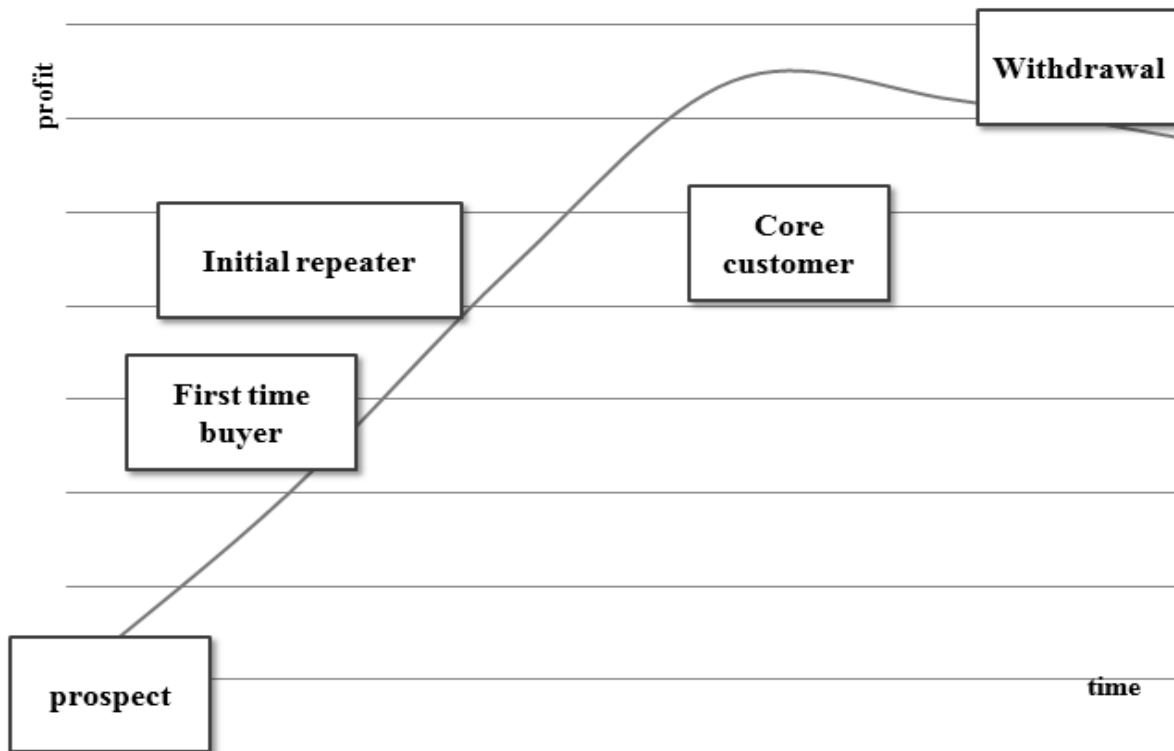


Figure 1: Customer Lifecycle

### Sales and Marketing at Auto Dealerships

The authors conducted interviews with six dealerships, each of whom represent major automakers - four Japanese (A, B, C, and D) and two foreign (E and F). Based on these interviews and the resulting analysis, it was found that sales and marketing activities at auto dealerships were not particularly focused on boosting satisfaction and loyalty among core customers - and an unexpected majority had no awareness of these concepts.

At the same time, even if dealerships were aware of the need for improvements in these areas, it was common for sales staff to simply rely on their personal knowledge (experiential data) so that related activities tended to be completely different for each person. As a result, when it came to customer satisfaction and loyalty, problems were arising from the mismatch between managers' intentions, salesperson activities, and customer experiences (preferences) at auto dealers.

### **Customer Satisfaction and Loyalty to Boost Marketing Effectiveness**

In order to help resolve the sales and marketing issues outlined in the previous section and simultaneously achieve higher satisfaction among core customers, the authors employed statistical methods to make explicit (objectify) the operations currently being implicitly carried out at dealerships based on employees' personal knowledge. The goal was to make sales and marketing activities more effective by having them accurately reflect the needs of core customers.

The specific procedure used to do this was as follows:

- Step 1 was to specify the key factors that make up customer satisfaction and loyalty.
- In Step 2, the authors collected customer information and subjected it to an analysis of covariance structure. The insights gained from this analysis were then used to determine the degree to which each key factor impacts satisfaction and loyalty.

### **Application to Dealerships**

The key factors comprising satisfaction and loyalty among core customers at the six target dealerships - four Japanese (A, B, C, and D) and two foreign (E and F) - were identified in order to determine the level of impact each carries.

#### *Specify the Key Factors*

In Step 1, the authors collected and analyzed sales information from core customers to identify the components of satisfaction and loyalty among them. One way they did this was by actually going to dealerships to participate in new car presentations and collecting the required information from customers. The authors put together their own questionnaire for the information collection process, with items that not only reflected the personal knowledge of salespeople and managers, but also information gained from direct interviews with customers.

As a result of these information collection efforts, the authors were able to add survey items that accurately reflected how important service was to customers - both before and after a new vehicle purchase. Working from these insights as a basis, the authors added in the SERVQUAL framework (a service quality evaluation measurement tool) to create a new evaluation and measurement scale that was ultimately used to generate the questionnaire. Because the SERVQUAL method is not limited to a specific industry, it has some problems in terms of applicability to individual business activities (including auto sales). To eliminate these issues, the authors used the aforementioned interviews to ensure that they had a complete grasp of the factors specific to the auto industry.

#### *Collecting and Analyzing the Customer Information*

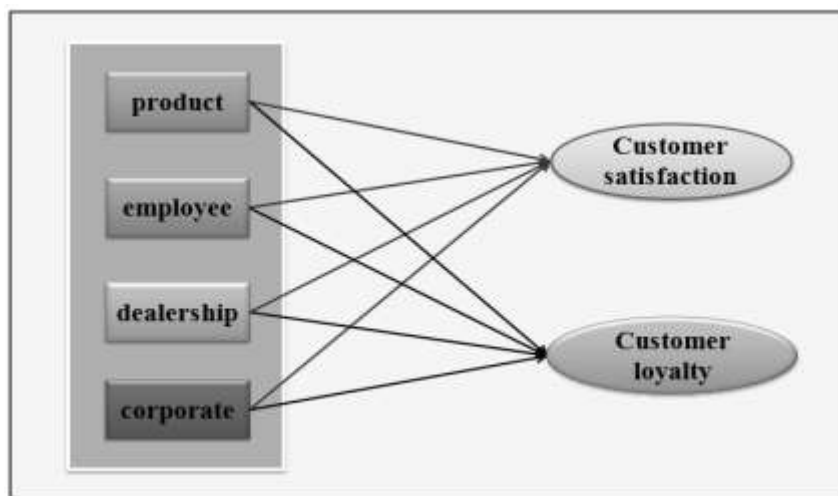
Once the items extracted from these interviews were integrated with the SERVQUAL framework, the authors were able to specify 29 individual factors - 17 product, 3 employee, 6 dealership, and 3 corporate. In Step 2, the 29 factors listed in Table 1 were rated on a seven-point scale, along with customer satisfaction and loyalty, to identify the kinds of things that customers were looking for.

**Table 1: Survey (Questionnaire Form)**

factor	Question items	Rating scales						
		Very dissatisfied	dissatisfied	A little dissatisfied	neutral	A little satisfied	satisfied	Very satisfied
<b>product</b>	exterior						○	
	interior						○	
	Safety device				○			
	Handling					○		
	Cornering						○	
	Straight-line stability				○			
	High-speed stability				○			
	Durability				○			
	pedal			○				
	seat							○
	Engine displacement			○				
	fuel efficiency		○					
	Interior noise					○		
	Body shaking				○			
	Car navigation system				○			
	audio				○			
	price				○			
<b>employee</b>	polite						○	
	knowledge					○		
	Prompt customer service						○	
<b>dealership</b>	Appearance				○			
	Opening Hours			○				
	location			○				
	mandatory inspection services					○		
	Emergency measure							○
	Periodic contact					○		
<b>corporate</b>	pamphlet · Website				○			
	TV commercials				○			
	corporate image					○		
	Customer Satisfaction						○	
	Customer Loyalty					○		

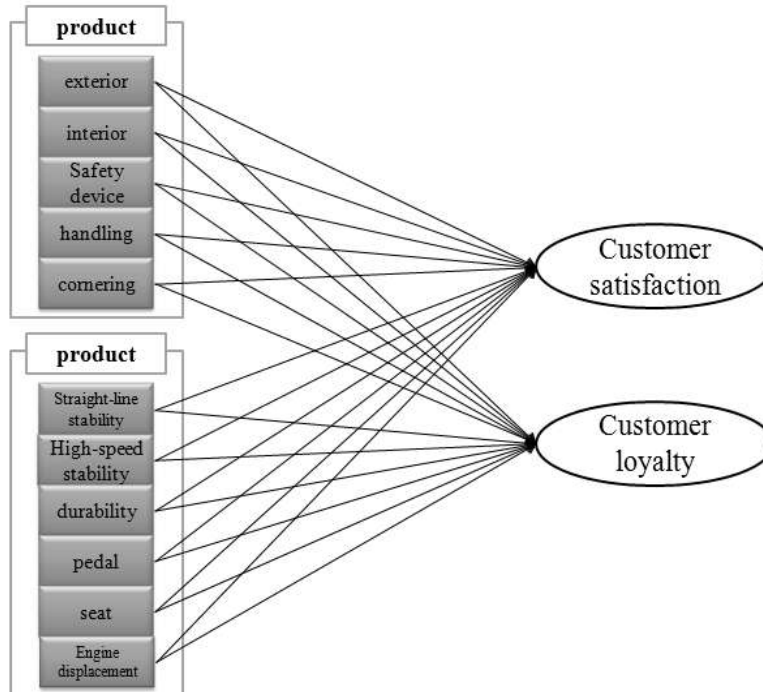
*Finding Out the Degree of Impact for Each Factor*

Figure 2 shows a cause-and-effect model proposed by the authors based on the factors specified in the previous section. This diagram was used as a structural model of customer satisfaction and loyalty at auto dealerships.

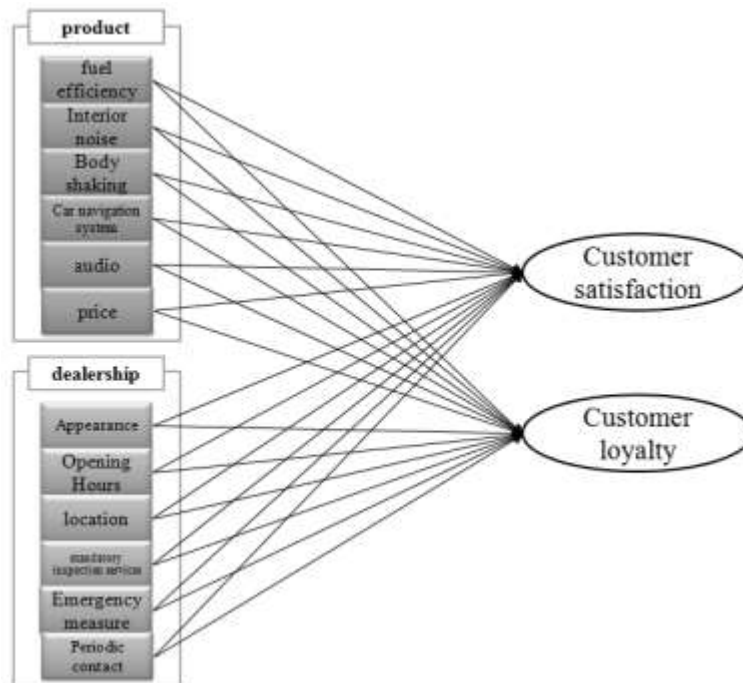


**Figure 2: Cause-and-Effect Model of Key Factor**

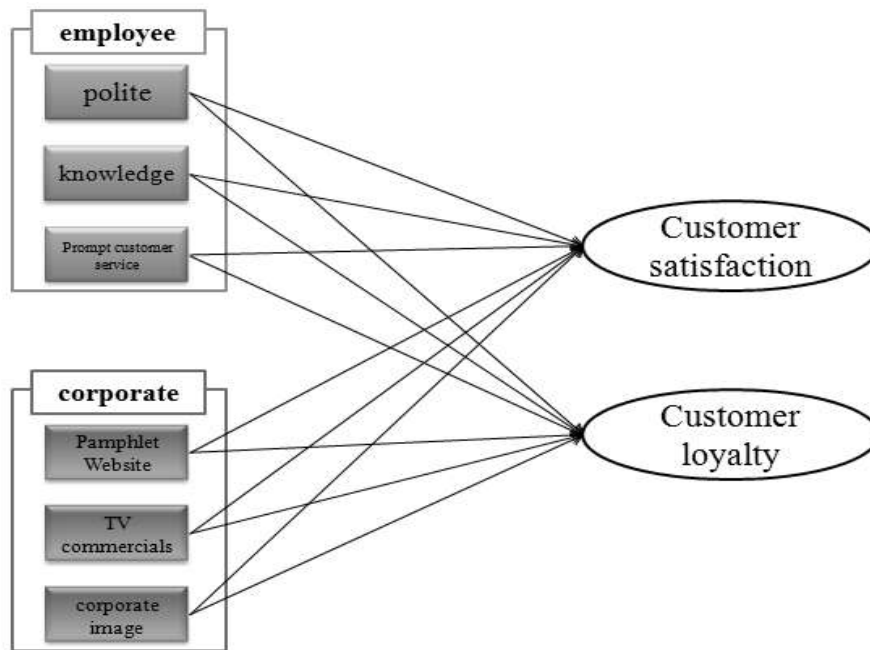
The four key factors (first-order compositional) represented in the figure are comprised of individual - or second-order compositional factors - which impact customer satisfaction and loyalty.



**Figure 3: Cause-and-Effect Model of Individual Factor for Product**



**Figure 4: Cause-and-Effect Model of Individual Factor for Product and Dealership**



**Figure 5: Cause-and-Effect Model of Individual Factor for Employee and Corporate**

Table 2 shows the results of the covariance structure analysis on each individual factor that makes up the four key factors (products, dealership, employees, and company) as they relate to customer satisfaction and loyalty.

Under product, the table shows that the individual factors with the greatest impact on customer satisfaction and loyalty are aspects of driving performance quality (engine displacement, fuel efficiency, handling stability, etc.) as well as subjective quality factors, such as exterior features and seats. The analysis results indicate that if auto manufacturers are to prioritize customer satisfaction and loyalty during their sales and marketing activities, they need to enhance product development so that it focuses on performance quality, design quality (including exterior design quality, like body shape and paint color), and subjective qualities, like seat comfort.

At the same time, affiliated dealerships need to work to enhance customer handling during emergencies as well as mandatory inspection services. Similarly, it can be inferred that because corporate image and TV commercials also have a powerful effect on customers, vehicles are an important factor in generating trust towards a company.

Under the topic of employees, polite and prompt customer service was found to have the greatest impact on customer loyalty. These point to a customer mindset whereby those looking to replace an existing vehicle have a desire to go back to the dealership where they purchased their old car because they have a lasting impression of the courteous manner with which a salesperson treated them before.

**Table 2: Results of the Covariance Structure Analysis**

<b>product</b>	<b>Customer Satisfaction</b>	<b>Customer Loyalty</b>
exterior	.612	.470
interior	.198	.217
Safety device	-.034	-.109
Handling	.087	.026
Cornering	.190	.149
Straight-line stability	.207	.213
High-speed stability	.106	-.077
Durability	-.045	-.064
pedal	-.458	-.257
seat	.519	.694
Engine displacement	.600	.343
fuel efficiency	.475	.270
Interior noise	.136	.188
Body shaking	.254	.506
Car navigation system	-.045	-.120
audio	.181	-.099
price	-.024	.119
<b>dealership</b>	<b>Customer Satisfaction</b>	<b>Customer Loyalty</b>
Appearance	.115	-.041
Opening Hours	.024	-.048
location	-.098	.169
mandatory inspection services	.203	.086
Emergency measure	.659	.559
Periodic contact	-.294	.278
<b>employee</b>	<b>Customer Satisfaction</b>	<b>Customer Loyalty</b>
polite	.291	.552
knowledge	.154	.316
Prompt customer service	.464	.077
<b>corporate</b>	<b>Customer Satisfaction</b>	<b>Customer Loyalty</b>
pamphlet* Website	.205	.057
TV commercials	.128	.502
corporate image	.776	.511

**CONCLUSION**

The analysis results obtained in the previous section provide clues as to how more logical sales and marketing activities might be carried out in the future. By making explicit underlying employee knowledge on the degree to which certain factors affect customer satisfaction and the customer loyalty that makes buyers want to come back for repeat purchases, the authors were able to visually present a structural model of impact outlining the relative strength of both the key and individual factors that can help boost customer satisfaction and loyalty.

In order to verify the validity of the insights gained through this study, the authors conducted test interviews at auto dealerships. Overall, the evaluations indicated that the study outcomes were in line with the experiential knowledge of employees as well as with general principles for future sales and marketing activities. The authors are currently conducting further verification at leading dealerships, a process which includes identifying factors that may have been overlooked during the initial study.



## AUTHOR INFORMATION

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